



CONSOLIDATED INTERIM FINANCIAL STATEMENTS

For the three and six month periods ended September 30, 2021 and September 30, 2020

(expressed in Canadian dollars)

(UNAUDITED)

In accordance with National Instrument 51-102 released by the Canadian Securities Administrators, the Corporation discloses that its auditors have not reviewed the unaudited consolidated interim financial statements for the six month period ended September 30, 2021

Management's Responsibility for Financial Information

The consolidated interim financial statements (the "Interim Financial Statements"), the notes thereto and other financial information contained in the management's discussion and analysis are the responsibility of management of Aquarius Surgical Technologies Inc. and have been approved by the Board of Directors.

The Interim Financial Statements have been prepared in accordance with International Financial Reporting Standards as issued by the International Accounting Standards Board and, where necessary, include amounts which reflect management's best estimates and judgments based on current available information. Aquarius Surgical Technologies Inc. maintains systems of internal accounting and administrative controls in order to provide reasonable assurance that the Corporation's assets are appropriately accounted for and adequately safeguarded, and that financial information is accurate and reliable.

The Board of Directors, through its Audit Committee, is responsible for ensuring that management fulfils its responsibilities for financial reporting and is ultimately responsible for reviewing and approving the Interim Financial Statements and the accompanying management's discussion and analysis.

The Audit Committee reviews the Interim Financial Statements and the management's discussion and analysis of financial results and reports its findings to the Board of Directors for its consideration when approving the Financial Statements for issuance to the shareholders.

"N. Gary Van Nest"

N. Gary Van Nest
Chief Executive Office

November 22, 2021

"Lorne S. MacFarlane"

Lorne S. MacFarlane
Chief Financial Officer



CONSOLIDATED INTERIM FINANCIAL STATEMENTS

September 30, 2021

<u>Contents</u>	<u>Page</u>
Consolidated Statements of Financial Position	1
Consolidated Interim Statements of Loss	2
Consolidated Statements of Changes in Deficiency	3
Consolidated Statements of Cash Flows	4
Notes to Consolidated Financial Statements	5-20



Aquarius Surgical Technologies Inc.
Consolidated Statements of Financial Position
(Expressed in Canadian dollars)

	As at	30-Sep-21	31-Mar-21
ASSETS		\$	\$
Current Assets			
Cash and deposits		168,752	145,973
Accounts receivable (Note 16)		236,073	204,192
Inventories (Note 4 and Note 19)		60,187	21,097
Prepaid expenses and deposits		18,353	18,353
Due from related party (Note 6 (A) and Note 19)		258,644	251,896
		742,009	641,511
Long-term investment (Note 7)		1	1
Equipment (Note 5 and Note 19)		284,786	304,616
		1,026,796	946,128
LIABILITIES AND SHAREHOLDERS' EQUITY (DEFICIENCY)			
Current Liabilities			
Accounts payable and accrued liabilities		732,598	414,693
Operating loan		153,496	150,000
Current portion long term debt (Note 10)		312,985	430,981
		1,199,079	995,674
Due to related party (Note 6 (B))		2,326,548	2,115,768
Long term debt (Note 10)		326,677	229,346
		2,653,225	2,345,114
		3,852,304	3,340,788
Shareholders' Equity (Deficiency)			
Common Shares (Note 8)		19,835,907	19,835,907
Contributed surplus		9,303,859	9,303,859
Deficit		(31,965,274)	(31,534,426)
		(2,825,508)	(2,394,660)
		1,026,796	946,128

*The accompanying Notes form an integral part of these consolidated interim financial statements
(See Note 2 - Going Concern, Note 14 - Commitments and Note 19 Litigation)*

Approved on behalf of the Board

"David J. Hennigar"
David J. Hennigar

"N. Gary Van Nest"
N. Gary Van Nest

November 22, 2021



Aquarius Surgical Technologies Inc.

(Unaudited)

(Expressed in Canadian dollars)

Three Months Ended Six Months Ended

30-Sep-21 30-Sep-20 30-Sep-21 30-Sep-20

\$ \$ \$

Sales				
Equipment	62,859	-	62,859	-
Fiber sales	68,982	75,371	113,429	159,604
Other	13,993	4,105	19,740	12,630
	145,834	79,476	196,028	172,234
Cost of sales	76,033	37,960	99,396	97,386
Gross Margin	69,801	41,516	96,632	74,848
Expenses				
General and administrative (Note 12)	198,423	283,149	405,868	546,550
Bank charges and interest	50,490	90,716	103,463	184,733
Amortization (Notes 5)	12,456	32,293	25,050	67,805
	261,368	406,158	534,381	799,087
Net loss before other items	(191,567)	(364,643)	(437,749)	(724,240)
Other items:				
Interest income	3,374	3,624	6,901	7,093
Net loss for the period	(188,193)	(361,018)	(430,848)	(717,147)
Loss per share, basic and diluted	(\$0.01)	(\$0.02)	(\$0.02)	(\$0.03)
Weighted average number of shares outstanding, basic and diluted (Notes 8 and 13)	23,079,172	22,916,536	23,079,172	22,897,956

See Note 19 - Litigation

The accompanying Notes form an integral part of these consolidated interim financial statements



Aquarius Surgical Technologies Inc.
Consolidated Statements of Changes in Deficiency
(Expressed in Canadian dollars)

for the six months ended September 30, 2021 and September 30, 2020

	Issued Capital		Contributed		Total
	Common Share	Amount	Surplus	Deficit	
		\$	\$	\$	\$
Balance March 31, 2020	22,866,672	19,750,907	9,283,950	(29,724,012)	(689,155)
Issued for services	75,000	30,000	-	-	30,000
Net loss for the period	-	-	-	(356,131)	(356,131)
Balance September 30, 2020	22,941,672	19,780,907	9,283,950	(30,080,143)	(1,015,286)
Balance March 31, 2021	23,079,172	19,835,907	9,303,859	(31,534,426)	(2,394,660)
Net loss for the period	-	-	-	(430,848)	(430,848)
Balance September 30, 2021	23,079,172	19,835,907	9,303,859	(31,965,274)	(2,825,508)

See Note 19 - Litigation

The accompanying Notes form an integral part of these consolidated interim financial statements



Aquarius Surgical Technologies Inc.
Consolidated Interim Statements of Cash Flows (unaudited)
(Expressed in Canadian dollars)

	Three Months Ended		Six Months Ended	
	30-Sep-21	30-Sep-20	30-Sep-21	30-Sep-20
Cash flows provided by (used in):				
	\$	\$	\$	\$
Operating activities				
Net loss for the period	(188,193)	(361,017)	(430,848)	(717,147)
Amortization (Notes 5)	12,456	32,293	25,050	67,805
Shares issued for services	-	15,000	-	30,000
Interest accretion (Note 6(B) and Note 10)	14,038	54,578	34,123	106,077
Accounts receivable	(62,947)	(1,039)	(31,882)	30,480
Inventory	3,877	899	(39,091)	(163,939)
Prepaid expenses and deposits	-	2,298	-	24,092
Due from former related party (Note 6 (A))	(3,375)	(4,845)	(6,748)	(9,469)
Accounts payable and accrued liabilities	121,537	173,212	321,405	153,091
	(102,607)	(88,621)	(127,991)	(479,010)
Financing activities				
Increase (decrease) in amounts due to related party	139,955	21,525	203,165	17,464
Repayment of convertible note	-	-	-	(4,961)
Proceeds term loan	-	-	-	500,000
Proceeds CEBA loan	-	-	-	40,000
Repayment of term loan	(23,697)	(22,579)	(47,174)	(22,579)
	116,258	(1,054)	155,991	529,924
Investment activities				
Purchase of equipment	(5,221)	-	(5,221)	-
	(5,221)	-	(5,221)	-
Increase (decrease) in cash during the year	8,429	(89,675)	22,779	50,914
Cash, beginning of period	160,323	245,775	145,973	105,186
Cash, end of period	168,752	156,100	168,752	156,100
Interest paid in cash	36,451	36,138	69,339	78,656
Non-cash transactions:				
Issuance common shares for services	-	15,000	-	30,000

The accompanying Notes form an integral part of these consolidated interim financial statements

1. NATURE OF OPERATIONS

Aquarius Surgical Technologies Inc., 89 Scollard Street, Toronto, ON M5R 1G4 (the “Corporation” OR “ASTI”) was incorporated under the *Business Corporations Act* (Ontario) on December 12, 1986. The Corporation trades on the Canadian Securities Exchange (CSE) under the symbol ASTI.

The Corporation is currently generating revenue from sales and service operations of its subsidiary Surgical Lasers Inc. (“SLI”) which it acquired in March of 2017. The Corporation’s primary, though not exclusive, focus is the development, sale, distribution, and marketing of technologies for use in surgical and other environments where health of patients and customers can be enhanced. The Corporation aims to build sales and service by building on its existing base and introducing additional value added services and technologies through organic growth and acquisition.

SLI is an international distributor, service, and support organization providing integrated laser-based solutions across multiple medical disciplines. These disciplines include urology, gynecology, ophthalmology, thoracic, ENT, cardiovascular, and neurosurgery, many of which are now considered the standard of care for treatment. SLI’s focus has always been on efficacy, evidence-based research, proven technologies, and value. This approach allows the company to deliver practical solutions which not only enhances patient and customer care, but also introduces operational and financial benefits to its customer base.

2. GOING CONCERN

The consolidated interim financial statements (the “Interim Financial Statements”) for the Corporation have been prepared on a going concern basis, which assumes the Corporation will continue in operation for the foreseeable future and will be able to realize its assets and discharge its liabilities and commitments in the normal course of business.

During the years ended March 31, 2021 and March 31, 2020 the Corporation had operating revenues of \$583,444 and \$958,743, recorded losses of \$1,810,414 and \$1,610,649, respectively, and has not met sales targets to comply with its distribution agreements. For the years ended March 31, 2021 and March 31, 2020 the Corporation had negative cash flow from operations of \$409,003 and \$951,176, respectively. At September 30, 2021 and March 31, 2021 the Corporation had negative working capital of \$457,070 and \$354,163 respectively. Also, at September 30, 2021 and March 31, 2021, the Corporation had a shareholders’ deficit of \$2,825,508 and \$2,394,660, respectively. In February, 2021, extensive fraudulent activity by certain individuals previously engaged in senior management positions was uncovered, leading to immediate removal of those persons. Management has concluded that the majority of the fraudulent activity has been accounted for by provisions made in the financial statements for the year ended March 31, 2021, however further fraudulent activities and losses caused by those individuals may be uncovered in the future as a result of continuing in-depth investigations. Litigation has been commenced to seek recovery of losses. (See Note 19 – Litigation).

Since March 31, 2020, the outbreak of COVID-19 has resulted in governments worldwide enacting emergency measures to combat the spread of the virus. These measures, which include the implementation of travel bans, self-imposed quarantine periods and social distancing, have caused material disruption to businesses globally resulting in an economic slowdown. Governments and central banks have reacted with significant monetary and fiscal interventions designed to stabilize economic conditions. It is not possible to reliably estimate the length and severity of these developments and the impact on the financial results and condition of the Corporation in future periods.

These circumstances create a material uncertainty that may be considered to cast significant doubt on the ability of the Corporation to continue as a going concern. The Corporation is dependent on the support of its creditors and lenders, the ability to obtain additional financing, maintaining its distribution rights and ultimately, the attainment of profitable operations. The Corporation’s distribution rights is dependent on achievement of certain annual targets agreed between the parties from time to time, or alternatively, continued support from the other party with respect to waiving targets.

If the going concern assumption were not appropriate for these consolidated financial statements, adjustments would be necessary to the carrying values of assets and liabilities, the reported loss for the year and balance sheet classifications, such adjustments could be material.

3. SIGNIFICANT ACCOUNTING POLICIES

(a) Basis of presentation

The Interim Financial Statements are presented in Canadian dollars which is also the functional currency of the Corporation and its subsidiaries.

The Interim Financial Statements for the period ended September 30, 2021, and the notes thereto present the Corporation's financial results of operations and financial position under IFRS as at and for the three and six month periods ended September 30, 2021 and September 30, 2020. The Interim Financial Statements have been prepared in accordance with International Accounting Standard ("IAS") 34, "Interim Financial Reporting", as issued by the International Accounting Standards Board ("IASB") and using the accounting policies the Corporation adopted in its financial statements for the year ending March 31, 2021 based on current standards. The Interim Financial Statements do not include all the necessary annual disclosures in accordance with IFRS.

The policies set out in Note 3 were consistently applied to all the years presented unless mentioned.

The consolidated financial statements were approved by the board of directors for issuance on November 22, 2021.

(b) Basis of consolidation

The consolidated financial statements include the accounts of the Corporation and its wholly owned subsidiaries, Surgical Lasers Inc., Scotiachemco Holdings Limited and Scotiachemco Inc. Inter-company transactions and balances have been eliminated.

(c) Basis of preparation

The consolidated financial statements are prepared on the historical cost basis except for certain assets, liabilities and financial instruments which are measured at their fair values, as explained in the relevant accounting policies set out below.

(d) Accounting estimates and judgements

The preparation of financial statements requires management to make judgments, estimates and assumptions that effect the application of policies and reported amounts of assets and liabilities, revenue and expenses and the accompanying notes. Actual results could differ from these estimates under the circumstances.

The areas that management makes critical estimates, assumptions and judgments are the collectability of accounts receivable, valuation and determination of the useful life of assets, valuation of convertible debenture debt/equity, valuation of share capital warrants and stock options, fair value of long-term investments and recoverability of deferred tax assets.

(e) Financial Instruments

A financial asset shall be measured at amortized cost if it is held within a business model whose objective is to hold assets in order to collect contractual cash flows which arise on specified dates and that are solely principal and interest. A debt investment shall be measured at fair value through other comprehensive income if it is held within a business model whose objective is to both hold assets in order to collect contractual cash flows which arise on specified dates that are solely principal and interest as well as selling the asset on the basis of its fair value. All other financial assets are classified and measured at fair value through profit or loss unless the entity makes an irrevocable election on initial recognition to present gains and losses on equity instruments (that are not held-for-trading or these requirements, a financial asset may be irrevocably designated as measured at fair value through profit or loss to reduce the effect of, or eliminate, an accounting mismatch. For financial liabilities designated at fair value through profit or loss, the standard requires the portion of the change in fair value that relates to the entity's own credit risk to be presented in OCI (unless it would create an accounting mismatch).

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

(e) Financial Instruments (continued)

The classification of the Corporation's financial assets and financial liabilities are summarized in the following table:

	IFRS 9	
	Classification	Measurement
Financial assets and liabilities		
Cash and deposits	Amortized cost	Amortized cost
Accounts receivable and deposits	Amortized cost	Amortized cost
Due from related party	Amortized cost	Amortized cost
Long-term investment	FVTPL	FVTPL
Accounts payable and accrued liabilities	Amortized cost	Amortized cost
Note payable	Amortized cost	Amortized cost
Convertible note	Amortized cost	Amortized cost
Due to related party	Amortized cost	Amortized cost
Series "A" special shares	FVTPL	FVTPL

(f) Impairment of financial assets at amortized cost

The impairment model requires the recognition of impairment provisions based on expected credit losses ("ECL"). Impairment provisions on financial assets carried at amortized cost are reversed in subsequent periods if the amount of the provision decreases and the decrease can be objectively related to an event occurring after the impairment was recognized. The Corporation's accounts receivable, deposits and due from related party are included in this category. The Corporation applies the simplified approach to measuring ECL which uses a lifetime expected impairment. To measure the ECL, impairment provisions on accounts receivable are based on credit risk characteristics and days past due. Accounts receivable are written off when there is no reasonable expectation of recovery. An indicator that there is no reasonable expectation of recovery is the failure of a debtor to engage in a repayment plan with the Corporation.

(g) Revenue from contracts with customers

The Corporation employs a five-step process for determining the performance obligations within customer sales contract such that revenue is recognized when each specific performance obligation is satisfied and as or when the transfer of control of goods or services to the customer has occurred. Revenue is recognized to reflect the consideration the Corporation is entitled to receive in exchange for the goods or services included under each specific performance obligation.

The Corporation's primary sources of revenue under its contracts with customers are the sale of medical devices and fibre-optic delivery devices. The performance obligation regarding the Corporation's contracts with its customers and the timing of revenue recognition on those obligations is upon shipment and revenue is recognized at a point in time. Payment is due on terms established with the customer and can range from date of delivery to 60 days. The Corporation is able to allocate the transaction price to all of its performance obligations using the prices of the promised goods as they are quoted and invoiced to customers on a stand-alone basis. The Corporation also provides a 1 year manufacturer's warranty on sales and therefore the Corporation makes no warranty provision

(h) Cash and deposits

Cash consists of deposits with major financial institutions

(i) Inventories

Inventories are stated at the lower of cost and net realizable value. Net realizable value is the estimated selling price in the ordinary course of business, less selling expenses. The cost is determined based on a first-in, first-out basis and includes expenditures incurred in acquiring the inventories and bringing them to their existing location and condition which include the purchase price, import duties, non-recoverable taxes, transportation, handling and other costs directly related to the purchase of the inventory.

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

(j) Equipment

Equipment placed in hospitals and clinics for evaluation purposes are classified as demo equipment. Equipment is stated at cost less accumulated depreciation and accumulated impairment losses. The cost of an item of equipment consists of the purchase price, any costs directly attributable to bringing the asset to the location and condition necessary for its intended use and an initial estimate of the costs of dismantling and removing the item and restoring the site on which it is located. Amortization is provided on equipment over the estimated useful life using the following rates and methods:

Computer equipment	- 5 years straight line
Furniture and equipment	- 3 years straight line
Demo equipment	- 10 years straight line

Depreciation methods, useful lives and residual values are reviewed each period and adjusted if appropriate.

(k) Convertible debenture

Loans and borrowings are initially recognized at the fair value of the consideration received, net of transaction costs. They are subsequently measured at amortized cost using the effective interest method. The component of the convertible note that exhibits characteristics of a liability is recognized as a liability in the statement of financial position, net of transaction costs.

On the issuance of the convertible notes the fair value of the liability is determined and this amount is carried as a non-current liability on the amortized cost basis until extinguished on conversion or redemption. The increase in the liability due to the passage of time is recognized as a finance cost. The remainder of the proceeds are allocated to the conversion option that is recognized and included in shareholders equity as part of contributed surplus, net of transaction costs. The carrying amount of the conversion option is not remeasured in subsequent years. The corresponding interest on the convertible note is expensed to profit and loss.

(l) Income taxes

Income taxes are calculated using the liability method. Temporary differences arising from the difference between the tax basis of an asset or liability and its carrying amount on the balance sheet are used to calculate deferred income tax liabilities or assets. Deferred income tax liabilities or assets are calculated using the substantively enacted rates and laws that are expected to be in effect in the periods that the temporary differences are expected to be realized or settled. The effect of changes in rates is included in the statement of comprehensive income in the period which includes the substantive enactment date. A deferred tax asset is recognized to the extent that it is probable that future taxable profits will be available against which the temporary difference can be utilized. Deferred tax assets are reviewed at each reporting date and are reduced to the extent that it is no longer probable that the related tax benefit will be realized.

(m) Stock based payments

Stock based payment awards that are direct awards of stock to employees or directors, call for settlement in cash or other assets, or are stock appreciation rights that call for settlement by issuing equity instruments, are accounted for using the Black-Scholes option pricing model. The cost is recognized on a straight-line graded method over the vesting period adjusted for expected forfeitures as an employee or director expense with a corresponding increase to equity in contributed surplus. Consideration paid by employees or directors on the exercise of stock options is recorded as share capital.

Stock based payments with parties other than employees, assumes a rebuttable presumption that the fair value of the goods or services received can be estimated reliably. In certain circumstances, the Corporation rebuts this presumption because it cannot estimate reliably the fair value of the goods or services received. The Corporation then measures the goods or services received, and the corresponding increase in equity, indirectly, by reference to the fair value of the equity instruments granted, measured at the date the entity obtains the goods or the counterparty renders service.

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

(n) Unit private placements

For private placements of units consisting of common shares and warrants, the Corporation uses the Black-Scholes option-pricing model in determining the fair value of warrants. The common shares are allocated the residual value.

(o) Foreign currency

Foreign currency transactions are translated into Canadian dollars at the rate prevailing on the dates of the transactions. Monetary assets and liabilities in foreign currencies are translated into Canadian dollars at the rates of exchange in effect at the end of the year. Translation gains and losses are recorded in the statement of comprehensive income.

(p) Provisions

A provision is recognized in the statement of financial position when the Corporation has a present legal or constructive obligation as a result of a past event, and it is probable that an outflow of economic benefits will be required to settle the obligation. If the effect is material, provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessments of the time value of money and, where appropriate, the risks specific to the liability.

(q) Earnings (loss) per share

Basic earnings (loss) per share amounts are calculated by dividing net income (loss) for the year attributable to common shareholders by the weighted average number of common shares outstanding during the year. Diluted earnings (loss) per share amounts are calculated by dividing the net profit (loss) attributable to common shareholders by the weighted average number of shares outstanding during the period plus the weighted average number of shares that would be issued on the conversion of all the dilutive potential ordinary shares into common shares.

(r) Impairment of non-financial assets

Equipment and intangibles are tested for impairment whenever events or changes in circumstances indicate that their carrying amount may not be recoverable. Goodwill is systematically tested for impairment at each balance sheet date, or more frequently when events or changes in circumstances indicate that the asset may be impaired. The recoverable amount is the higher of fair value less costs to sell and value in use. Fair value (less costs to sell) is the amount obtainable from the sale of the asset or group of assets in an arm's length transaction between knowledgeable and willing parties, less costs to sell. Value in use is equal to the present value of future cash flows expected to be derived from the use and sale of the asset.

Impairment losses may be reversed, in a subsequent period where the impairment no longer exists or has decreased. The carrying amount after a reversal must not exceed the carrying amount (net of depreciation) that would have been determined had no impairment loss been recognized.

(s) Fair value measurement

The Corporation categorizes its financial assets and liabilities measured at fair value into one of three different levels depending on the observability of the inputs used in the measurement.

Level 1: This level includes assets and liabilities measured at fair value based on unadjusted quoted prices for identical assets and liabilities in active markets that are accessible at the measurement date.

Level 2: This level includes valuations determined using directly or indirectly observable inputs other than quoted prices included within Level 1.

Level 3: This level includes valuations based on inputs which are less observable, unavailable or where the observable data does not support a significant portion of the instruments' fair value.

Long term investments and the Series "A" Special Shares are considered Level 2 in the hierarchy.

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

(t) Business combinations

At the time of acquisition, the Corporation determines whether what is acquired meets the definition of business, in which case if it does, the transaction is considered a business combination, and otherwise it is recorded as an asset acquisition.

For an asset acquisition, the net identifiable assets acquired and liabilities assumed are measured at the fair value of the consideration paid, based on their relative fair values at the acquisition date. Acquisition related costs are included in the consideration paid and capitalized. No goodwill is recorded and no deferred tax asset or liability arising from the assets acquired or liabilities assumed are recognized upon the acquisition of the assets.

Business combinations are accounted for using the acquisition method. Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured initially at their fair values at the acquisition date, irrespective of the extent of any non-controlling interest. The excess of the fair value of the consideration transferred including the recognized amount of any non-controlling interest in the acquiree, over the fair value of the Corporation's share of the identifiable net assets acquired is recorded as goodwill. Any contingent consideration to be transferred by the acquirer will be recognized at fair value at the acquisition date. Subsequent changes to the fair value of the contingent consideration which is deemed to be an asset or liability will be recognized in income. If the contingent consideration is classified as equity, it shall not be remeasured. Goodwill is initially measured at cost, being the excess of the aggregate of the consideration transferred and the fair value of the net identifiable assets acquired and liabilities assumed. When the excess is negative, a bargain purchase gain is recognized immediately in profit or loss. Acquisition costs are expensed as incurred, unless they qualify to be treated as debt issue costs, or as cost of issuing equity securities.

The measurement period is the period from the date of acquisition to the date the Corporation obtains complete information about facts and circumstances that existed as of the acquisition date – and is subject to a maximum of one year. The Corporation elects on a transaction-by-transaction basis whether to measure non-controlling interest at its fair value, or at its proportionate share of the recognized amount of the identifiable net assets, at the acquisition date.

(u) Accounting for leases

The Corporation has elected not to recognise a right-of-use asset and corresponding lease liability for short-term leases with terms of 12 months or less and leases of low-value assets. Lease payments on these assets are expensed to profit or loss as incurred.

A lease obligation is initially recognised at the present value of the lease payments to be made over the term of the lease, discounted using the interest rate implicit in the lease or, if that rate cannot be readily determined, the consolidated entity's incremental borrowing rate. Lease payments comprise of fixed payments less any lease incentives receivable, variable lease payments that depend on an index or a rate, amounts expected to be paid under residual value guarantees, exercise price of a purchase option when the exercise of the option is reasonably certain to occur, and any anticipated termination penalties. The variable lease payments that do not depend on an index or a rate are expensed in the period in which they are incurred.

The Corporation recognizes a right-of-use asset and a lease obligation under IFRS 16. The right-of-use asset is measured at cost, which comprises the initial amount of the lease liability, adjusted for, as applicable, any lease payments made at or before the commencement date net of any lease incentives received, any initial direct costs incurred, and, except where included in the cost of inventories, an estimate of costs expected to be incurred for dismantling and removing the underlying asset, and restoring the site or asset.

Right-of-use assets are depreciated on a straight-line basis over the unexpired period of the lease or the estimated useful life of the asset, whichever is the shorter. Where the consolidated entity expects to obtain ownership of the leased asset at the end of the lease term, the depreciation is over its estimated useful life. Right-of use assets are subject to impairment or adjusted for any remeasurement of lease liabilities.

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

(u) Accounting for leases (continued)

Lease obligation is measured at amortized cost using the effective interest method. The carrying amounts are remeasured if there is a change in the following: future lease payments arising from a change in an index or a rate used; residual guarantee; lease term; certainty of a purchase option and termination penalties. When a lease obligation is remeasured, an adjustment is made to the corresponding right-of-use asset, or to profit or loss if the carrying amount of the right-of-use asset is fully written down.

(v) Future Accounting Changes

Classification of Liabilities as Current or Non-current (Amendments to IAS 1)

In January 2020, the IASB issued amendments to IAS 1, "Presentation of Financial Statements" to clarify that the classification of liabilities as current or non-current should be based on rights that are in existence at the end of the reporting period and is unaffected by expectations about whether or not an entity will exercise their right to defer settlement of a liability. The amendments further clarify requirements for classifying liabilities an entity will or may settle by issuing its own equity instruments. These amendments are effective for annual reporting periods beginning on or after January 1, 2023, with earlier application permitted. Management is evaluating the impact on the consolidated financial statements from the adoption of this amendment.

4. INVENTORIES

Inventories consists of finished products held for sale.

5. EQUIPMENT

Equipment is comprised of the following:

	Computer equipment \$	Demonstration equipment \$	Office furniture and equipment \$	Total \$
September 30, 2020				
Cost				
Balance, beginning of period	12,178	1,283,598	20,784	1,316,560
Additions	-	-	5,221	5,221
Balance, end of period	12,178	1,283,598	26,005	1,321,781
Accumulated depreciation				
Balance, beginning of period	10,917	268,471	16,013	295,401
Depreciation for period	234	33,271	2,007	35,513
Balance, end of period	11,151	301,742	18,020	330,913
Net book value	1,027	981,856	7,984	990,868
September 30, 2021				
Cost				
Balance, beginning of period	12,178	431,298	20,784	464,260
Additions	-	-	5,221	5,221
Balance, end of period	12,178	431,298	26,005	469,480
Accumulated depreciation				
Balance, beginning of period	11,851	130,190	17,604	159,645
Depreciation for period	327	23,928	795	25,049
Balance, end of period	12,178	154,118	18,399	184,694
Net book value	-	277,180	7,606	284,786

6. DUE FROM AND TO RELATED PARTY

(A) Due from former related party

The now former President, Chief Technology Officer and Director of the Corporation, and Cast Laser Inc., (“Cast”) a corporation owned by that director, were indebted to the Corporation as at September 30, 2021, in the amount of \$255,269 (2020 - \$242,673).

As of July 30, 2019, each of Gordon Willox, Cast and Forest Lane Holdings Inc. delivered a joint and several promissory note to secure the principal amount of \$224,907 together with interest at 6% per year accruing from April 1, 2019. Under this promissory note interest accruing on the outstanding principal from time to time is payable at the end of each month, and the principal is payable on demand. (See also Note 19 – Litigation)

The following table details the changes in the amount due from a former related party:

	30-Sep-21	30-Sep-20
	\$	\$
Balance beginning of period	251,896	238,049
Interest and advances during the period	6,748	9,469
	258,644	247,518

(B) Due to related party

Forest Lane Holdings Limited (“FLH”), a Company controlled by David J. Hennigar, Chairman of the Corporation, owns directly and indirectly 8,686,553 shares (37.6%) (2020 – 38.0%) of the Corporation. FLH has provided working capital funding to the Corporation for a number of years.

The following table details the changes in the amount due to related party:

	30-Sep-21	30-Sep-20
	\$	\$
Balance beginning of period	2,123,383	2,059,522
Interest and advances during period	196,390	9,117
Change in foreign currency translation	6,775	53,270
Face value of loan	2,326,548	2,121,909
Valuation adjustment	(588,930)	(588,930)
Imputed interest	588,930	442,561
Balance end of period	2,326,548	1,975,541

Effective January 14, 2020, the Corporation entered into an Agreement with FLH in relation to the loan due to FLH. Under that Agreement, the terms of the FLH Loan, which was previously non-interest-bearing and had no set terms for repayment, were amended such that effective April 1, 2020, (i) it will be subject to interest at CIBC Prime Rate plus 1%, payable quarterly on March 31, June 30, September 30 and December 31 in each year, (ii) it may be called for redemption by notice in writing expiring on a maturity date that is not less than fifteen months following the date of the notice, except in the case of a “trigger event” happening, and (iii) it may be repaid by the corporation, in whole or in part, at any time without notice or penalty. A “trigger event” includes any act or incident of insolvency of either the Corporation or Surgical Lasers Inc. (“SLI”), the disposition of all or substantially all of the assets of either the Corporation or SLI, or the acquisition of more than 50% of the issued and outstanding shares of the Corporation by any one shareholder or a group of shareholders acting in concert.

As at March 31, 2020 as a result as a result of the modifications of the terms of the FLH loan, a change in fair value was credited to contributed surplus and the imputed interest of \$189,238 will be recorded as a finance cost periodically until the deemed maturity on April 15, 2021.

6. DUE FROM AND TO RELATED PARTY (continued)

(B) Due to related party (continued)

The compensation paid to the directors and key management of the Corporation in the period ended September 30, 2021 was \$74,250 (2020 - \$147,000) in management fees and benefits. Key management includes those persons having authority and responsibility for planning, directing and controlling the activities of the Corporation, directly or indirectly, including any directors. Included in accounts payable and accrued liabilities is \$134,470 (2020 - \$39,550) payable to key management.

7. LONG TERM INVESTMENT

Woodland Biofuels Inc. ("Woodland")

The Corporation holds 112,272 shares in Woodland, a private company focused on the development and production of ethanol and other fuels and chemicals from biomass. The Corporation has written down the investment to its original cost of \$1.

8. SHARE CAPITAL

Share capital consists of the following:

- An unlimited number of special shares, issuable in series; and
- An unlimited number of common shares.

For the year ended March 31, 2021 the Corporation issued a total of 212,500 common shares from \$0.40 to \$0.43 per share as compensation for services.

Common shares	Shares	Amount
		\$
Balance March 31, 2020	22,866,672	19,750,907
Issued for services	75,000	30,000
Balance September 30, 2020	22,941,672	19,780,907
Balance March 31, 2021 and September 30, 2021	23,079,172	19,835,907
		\$
Series "A" Special Shares	Shares	Amount
		\$
Balance March 31, 2020 and September 30, 2020	919,741	1
Balance March 31, 2021 and September 30, 2021	-	-
		\$
Class "C" Warrants	Warrants	Amount
		\$
Balance March 31, 2020	1,186,078	138,000
Expired unexercised	(1,186,078)	(138,000)
Balance September 30, 2020, March 31, 2021 and September 30, 2021	-	-
		\$
Warrants - April 17, 2020	Warrants	Amount
		\$
Balance March 31, 2020	187,500	33,000
Expired unexercised	(187,500)	(33,000)
Balance September 30, 2020, March 31, 2021 and September 30, 2021	-	-

8. SHARE CAPITAL (continued)

Warrants - December 26, 2021	Warrants	Amount
		\$
Balance March 31, 2020 and September 30, 2020	814,233	195,000
Balance March 31, 2021 and September 30, 2021	814,233	195,000
Warrants - May 29, 2022	Warrants	Amount
		\$
Balance March 31, 2020 and September 30, 2020	906,707	183,000
Balance March 31, 2021 and September 30, 2021	906,707	183,000
Warrants - June 6, 2022	Warrants	Amount
		\$
Balance March 31, 2020 and September 30, 2020	10,000	2,000
Balance March 31, 2021 and September 30, 2021	10,000	2,000

The following table summarizes information about the warrants outstanding and exercisable at September 30, 2021:

Number of warrants outstanding	Expiry Date	Exercise Price \$	Number of warrants exercisable	Weighted average exercisable (yrs)
723,450	26-Dec-2021	0.70	723,450	0.24
90,783	26-Dec-2021	0.35	90,783	0.24
797,815	29-May-2022	0.70	797,815	0.66
108,892	29-May-2022	0.35	108,892	0.66
10,000	6-Jun-2022	0.70	10,000	0.68
<u>1,730,940</u>			<u>1,730,940</u>	<u>0.46</u>

9. STOCK BASED COMPENSATION PROGRAM

The Board of Directors has established a stock option plan (“the Plan”) under which options to purchase common shares are granted to directors, officers, consultants and key employees of the Corporation. The Plan was approved by the shareholders of the Corporations at the Annual General and Special Shareholders Meeting held on November 21, 2016. Options to acquire common shares are granted at option prices, which shall be not less than the fair market value of the shares at the time the option is granted. Fair market value shall be deemed to be the average between the highest and lowest prices at which the common shares are traded on the day the option is granted and if not so traded, the average between the closing bid and asked prices thereof as reported for the day on which the option is granted. Options expire between one and ten years from the date of the grant and will generally vest immediately.

The Corporation has reserved 3,000,000 common shares pursuant to the Plan. There are 1,310,000 options to acquire common shares outstanding under the plan as at September 30, 2021 (*September 30, 2020 – 1,460,000*). Any unexercised options that expire or are forfeited become available again for issuance under the Plan.

Options issued and outstanding as at September 30, 2021 and September 30, 2020:

	Weighted Average Exercise price	Issued
Balance March 31, 2020 and September 30, 20	1.00	1,460,000
Balance March 31, 2021	1.00	1,710,000
Less: cancelled		(400,000)
Balance September 30, 2021	1.00	1,310,000

9. STOCK BASED COMPENSATION PROGRAM (continued)

The following table summarizes information about the options outstanding and exercisable at September 30, 2021:

Number of options outstanding	Expiry Date	Exercise	Number of options exercisable	Weighted average remaining life
1,050,000	31-Mar-2022	1.00	1,050,000	0.50
10,000	24-Aug-2022	1.00	10,000	0.90
250,000	15-Oct-2023	0.40	250,000	2.04
1,310,000			1,310,000	0.80

10. LONG TERM DEBT

Convertible Note

Effective January 15, 2020 an unsecured short-term loan of \$250,000 bearing interest at 15%, which matured on December 31, 2019, was exchanged for a 9.5% unsecured convertible note maturing April 15, 2022. Interest is payable quarterly on January 15, April 15, July 15 and October 15. The note is convertible into common shares at \$0.35 per share at any time up to the date of maturity. The Corporation determined the value of the conversion option to be \$107,043 and this amount was transferred to contributed surplus and is being amortized as interest expense until maturity.

Term Loan

Effective June 3, 2020, the Corporation entered into a Credit Facility Agreement (the "Credit Facility") with a chartered bank (the "Bank"). Under the terms of the Credit Facility, the Corporation was granted a non-revolving term facility of \$500,000. The Credit Facility, together with all other obligations of the Corporation to the Bank, is secured by (i) a General Security Agreement over all personal property of the Corporation, ranking first in priority to all other obligations of the Corporation, (ii) a personal guarantee and postponement of claims in the amount of \$250,000 granted by a director of the Corporation, also by (iii) security over a cash collateral deposit by the Corporation in the form of a GIC in the amount of \$100,000 and a Guarantee in the amount of \$250,000 (the "EDC Guarantee") issued by Export Development Canada. The Terms of the Credit Facility also include financial covenants by the Corporation, including in particular the obligation to maintain Debt Service Coverage at the end of each financial year of not less than 1.25:1. The Credit Facility bears interest at 3.69% and is repayable in blended monthly payments of \$9,138 commencing July 3, 2020. The EDC Guarantee fee, calculated at 3.15% on the guaranteed balance outstanding, is payable quarterly in advance commencing on the May 22, 2020 acceptance date.

CEBA Loan

The Government of Canada provided interest free loans to qualified businesses through the Canada Emergency Business Account ("CEBA"). The loan is interest free and if repaid before December 31, 2022 qualify for forgiveness up to \$20,000. Loans not paid in full by December 31, 2022 will automatically renew for a further 3 year period and interest will commence at 5% per annum.

Long Term Debt	Convertible Note	Term Loan	CEBA Loan	Total
	\$	\$	\$	\$
Balance March 31, 2020	254,961	-	-	254,961
Advances during period	-	500,000	40,000	540,000
Repayments during period	(4,961)	(22,579)	-	(27,540)
Face value of loans	250,000	477,421	40,000	767,421
Unamortized valuation adjustment	(82,181)	-	-	(82,181)
Current portion long term debt	-	(93,613)	-	(93,613)
Balance September 30, 2020	167,819	383,808	40,000	591,627
Balance March 31, 2021	250,000	430,981	40,000	720,981
Repayments during period	-	(47,174)	-	(47,174)
Face value of loans	250,000	383,808	40,000	673,808
Unamortized valuation adjustment	(34,146)	-	-	(34,146)
Current portion long term debt	(215,854)	(97,130)	-	(312,985)
Balance September 30, 2021	-	286,677	40,000	326,677

11. INCOME TAX

The following table reconciles the income tax provision from the expected amount based on statutory rates to the amount reported for consolidated financial statement purposes for the Periods ended September 30, 2021 and September 30, 2020:

	30-Sep-21	30-Sep-20
	\$	\$
Net income (loss) before taxes	(430,848)	(717,147)
Income tax (recovery) at Canadian Federal and provincial statutory rates of	(114,175)	(190,043)
Deferred tax asset not recognized	114,175	190,043
Provision for income taxes	-	-
Deferred taxes		
	30-Sep-21	30-Sep-20
	\$	\$
Non-Capital losses carried forward	2,779,000	2,493,000
Equipment	274,000	174,000
Other	19,000	36,000
	3,072,000	2,703,000
Less: Deferred tax assets not recognized	(3,072,000)	(2,703,000)
Deferred tax liability	-	-
Non-capital losses carried forward	\$	
2026	303,096	
2027	183,097	
2028	327,325	
2029	409,661	
2030	348,264	
2031	217,199	
2032	323,394	
2033	963,325	
2034	735,728	
2035	1,178,880	
2036	187,084	
2037	250,352	
2038	1,458,657	
2039	1,348,216	
2040	1,172,945	
2041	1,082,472	
	10,489,695	

12. EXPENSES BY NATURE

Expense item	Three Months Ended		Six Months Ended	
	30-Sep-21	30-Sep-20	30-Sep-21	30-Sep-20
Selling, general and admin expenses	65,770	139,714	115,902	263,130
Professional fees	38,363	18,150	69,363	30,250
Listing expenses	10,539	21,784	13,853	45,469
Management fees	-	52,500	-	105,000
Consulting fees	83,750	51,000	206,750	102,700
General and administrative	198,423	283,149	405,868	546,550

13. EARNINGS (LOSS) PER SHARE

The earnings per share is calculated based upon the weighted average number of common shares outstanding during the period of 23,079,172 (*September 30, 2020 – 23,879,172*). As at September 30, 2021, the Corporation had 1,730,940 outstanding warrants (*September 30, 2020 - 1,730,940*) and 1,310,000 outstanding stock options (*September 30, 2020 – 1,460,000*). The dilution created by warrants and options and the Corporation's commitment to issue shares has not been reflected in the per share amounts as the effect would be anti-dilutive.

14. COMMITMENTS

Effective July 28, 2020 the Corporation was committed to a lease agreement related to the Corporation's premises, commencing on August 1, 2020, and terminating on July 31, 2021. Under the terms of this lease, the Corporation was required to pay a proportionate share of operating costs, realty taxes and utilities, in addition to the minimum lease payments.

That lease is now terminated and the Corporation is maintaining an office on a monthly basis as part of a management contract with Salumatics Inc.

15. FINANCIAL INSTRUMENTS

Fair Values

The estimated fair values of cash, accounts receivables, accounts payable, due from related parties and accrued liabilities and convertible debenture approximate their carrying values due to the relatively short-term nature of the instruments.

The fair value of the due to related party approximates the carrying value as the balance is discounted at a market interest rate. The long-term investment has been recorded at cost. The convertible debenture has been recorded at the discounted value after allocating the attributed value of the conversion feature. The Series "A" special shares are measured at fair value at the end of the reporting period.

During the periods ended September 30, 2021 and September 30, 2020, there was no transfer of financial assets between the three levels of the fair value hierarchy.

16. FINANCIAL RISKS

The main risks the Corporation's financial instruments are exposed to are credit risk, foreign currency risk, liquidity risk and market risk.

Credit Risk

The Corporation's credit risk is primarily attributable to its accounts receivable and due from related party. The amounts disclosed in the consolidated statements of financial position are net of allowances for doubtful accounts, estimated by the Corporation's management based on prior experience and their assessment of the current economic environment.

The Corporation establishes an allowance for doubtful accounts that represents its estimate of incurred losses in respect of accounts receivable. The main components of this allowance are a specific loss component that relates to individually significant exposures. As at September 30, 2021, all receivables which are 60 days past the due date and are deemed uncollectible have been recorded in the allowance for doubtful accounts. The total allowance for bad debts at September 30, 2021 is \$24,735 (2020 - \$13,082).

Accounts Receivable aging	\$
30 days or less	128,259
31 - 60 days	12,492
61 - 90 days	2,313
Over 90 days	117,744
	<u>260,808</u>
Less Provision	<u>24,735</u>
	<u>236,073</u>

Liquidity Risk

The Corporation's approach to managing liquidity is to ensure, as far as possible, that it will always have sufficient liquidity to meet its liabilities when due, without incurring unacceptable losses or risking damage to the Corporation's reputation. To the extent that the Corporation does not believe it has sufficient liquidity to meet these obligations, management will consider securing additional funds through debt or equity transactions. The Corporation manages its liquidity risk by continuously monitoring forecast and actual cash flows from operations. In recent years, additional loans from directors/shareholders have provided the necessary liquidity required. The payment of accounts payable and accrued liabilities are based upon contractual terms as arranged with suppliers. Effective April 1, 2020 the amount due to related party bears interest at CIBC Prime + 1% and the amount is callable upon 15 months written notice. The Corporation also manages liquidity risk on the basis of expected maturity dates. The following table analyzes financial liabilities by remaining contractual maturity (contractual and undiscounted cash flows).

Liquidity risk table	Account payable and			Total
	Debt	Lease Liability	accrued liability	
	\$	\$	\$	\$
Less than 1 year	466,481	-	732,598	1,199,079
1 - 5 year	2,653,225	-	-	2,653,225
More than 5 years	-	-	-	-
Balance as at September 30, 2021	<u>3,119,706</u>	<u>-</u>	<u>732,598</u>	<u>3,852,304</u>

Debt Service Coverage

The Terms of the Credit Facility include financial covenants by the Corporation, including the obligation to maintain Debt Service Coverage, defined as the ratio of EBITDA to the total of Interest Expense and scheduled principal payments in respect of Funded Debt, at the end of each financial year of not less than 1.25:1.

16. FINANCIAL RISKS (continued)

Market Risk

Market risk arises from the possibility that changes in market prices will affect the value of the financial instruments of the Corporation. As indicated in Note 7, the Corporation has an investment in a company focused on the development and production of ethanol and other fuels and chemicals from biomass. The fair value of this investment is subject to future financing to further develop the planned facility and the prices of the ethanol and wood. The Corporation has determined that it is not exposed significantly to any other market risk

Interest Rate Risk

The convertible note (Note 10) bears interest at 9.5%, the term loan (Note 10) bears interest at 3.69%, the amount due from related parties (Note 6(A)) bears interest at 6% per annum and the amount due to related parties (Note 6(B)) bears interest at CIBC Prime +1%. The Corporation is subject to interest rate price risk on the amount due to related parties resulting from market fluctuations in interest rates. A 1% change in interest rates would change interest expenses by \$20,000 per year.

Foreign exchange risk

Foreign exchange risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in foreign exchange rates. At the year end the following assets and liabilities originate in US. dollars and Euros and are subject to fluctuations:

	30-Sep-21	30-Sep-20	30-Sep-21	30-Sep-20
	US\$	US\$	€	€
Cash	45,654	58,231	-	-
Accounts receivable	166,245	35,173	-	-
Inventory deposits	-	-	-	11,600
Accounts payable	(12,216)	(76,454)	3,325	(27,829)
Credit cards	(21,704)	-	-	-
Related party payable	(411,616)	(394,287)	-	-
	(233,637)	(377,337)	3,325	(16,229)

A 5% change in the US and Euro exchange rates vs the Canadian dollar could create a net loss or gain of \$12,000 in the statement of operations.

17. MANAGEMENT OF CAPITAL

The Corporation defines capital that it manages as the aggregate of its loans payable, Series "A" special shares, share capital, contributed surplus and deficit. Its objectives when managing capital are to ensure that the Corporation will continue as a going concern, so that it can provide returns to its shareholders.

	30-Sep-21	30-Sep-20
	\$	\$
Convertible debenture	-	167,819
Long term debt	326,677	423,668
Amount due to related party	2,326,548	1,975,540
Series "A" Special Shares	-	1
Share capital	19,835,907	19,780,907
Contributed surplus	9,303,859	9,283,951
Deficit	(31,965,274)	(30,441,159)
Total Capital	(172,282)	1,190,728

17. MANAGEMENT OF CAPITAL (continued)

The Corporation manages its capital structure and makes adjustments to it in light of economic conditions. The Corporation, upon approval from its Board of Directors and subject to all relevant regulatory and other consents and approvals, will make changes to its capital structure as deemed appropriate under the specific circumstances.

The Corporation is not subject to any externally imposed capital requirements and does not presently utilize any quantitative measures to monitor its capital. The Corporation's overall strategy with respect to management of capital remains unchanged from the year ended March 31, 2021.

18. SEGMENTED INFORMATION

Management has determined that during the periods covered by these financial statements, the Corporation carried on business in one operating segment only. All capital assets, except for demonstration equipment, were located in Canada. Sales other than to Canadian customers for the period ended September 30, 2021 were export sales to the United States of \$196,028 (September 30, 2020 - \$168,733) and export sales to the Dominican Republic of \$ nil (September 30, 2020 - \$3,501).

19. LITIGATION

On July 16, 2021, following a forensic investigation and as anticipated in Press Releases issued in February and March, 2021, litigation was commenced by the Corporation's principal operating subsidiary, Surgical Lasers Inc. ("SLI"), in the Superior Court of Ontario against former consultants/employees Gordon Willox and Christopher Schmid, their related "consultant" corporations, CAST Laser, Inc. and 1380511 Ontario Inc., their corporations used to fraudulently divert and misappropriate corporate assets, Surgical Lasers Solutions Corp. (Ontario), Surgical Lasers Solutions Corp. (Delaware), Surgical Laser Solutions Inc. and Clarity Medical Technologies Inc., and former consultants/employees Michael Szymanski and Sherry Geramikhosh. In that Statement of Claim, SLI claims General Damages and Punitive Damages of \$6 million for breach of contract, fraud and theft, Specific Damages of US\$220,587 and C\$29,774 in respect of misappropriated assets and cash that have so far been specifically identified, and recovery of \$224,907 plus interest at 6% per year calculated from April 1, 2019 against Willox and CAST Laser, Inc. The Statement of Claim also seeks orders for an Accounting of misappropriated corporate assets, corporate cash and corporate opportunities and recovery of any amounts found due as well as appropriate injunctive and other consequential relief. Litigation is, by its nature, of uncertain outcome, and recovery of any amount that may be ordered by a Judgement is dependent on the resources available to the defendants to meet any obligations.